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IN THE

Supreme Court of the United States

LYRICK STUDIOS, INC.,
Petitioner,

v.

BIG IDEA PRODUCTIONS, INC.,
Respondent.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Fifth Circuit

PETITION FOR WRIT OF CERTIORARI

W. ALAN WRIGHT
DAVID H. HARPER
ANNE M. JOHNSON
BENJAMIN L. MESCHES
HAYNES AND BOONE, LLP
901 Main Street, Suite 3100
Dallas, TX 75202-3789
(214) 651-5000

THOMAS J. WILLIAMS
HAYNES AND BOONE, LLP
201 Main Street, Suite 2200
Fort Worth, TX 76102-3126
(817) 347-6600

GREGORY S. COLEMAN
Counsel of Record
LISA R. ESKOW
WEIL, GOTSHAL & MANGES LLP
8911 Capital of Texas Highway
Suite 1350
Austin, TX 78759
(512) 349-1930

Counsel for Petitioner

WILSON-EPES PRINTING CO., INC. – (202) 789-0096 – WASHINGTON, D. C. 20001

QUESTION PRESENTED

Section 204(a) of the Copyright Act permits a copyright owner to validate an agreement to transfer an exclusive copyright license by "a note or memorandum of the transfer." Does a confirmatory "note or memorandum" executed by the transferor after the transfer satisfy §204(a) only in infringement actions against third parties and only if communicated to the transferee?

PARTIES TO THE PROCEEDINGS BELOW AND CORPORATE DISCLOSURE STATEMENT

The caption identifies the parties to the proceedings below.

Petitioner Lyrick Studios, Inc., is wholly owned by HIT Entertainment, Inc., which is in turn owned by Sunshine Holdings 3 Limited.

Respondent Big Idea Productions, Inc., has no parent corporation. Big Idea is presently a debtor in a Chapter 11 proceeding pending in the United States Bankruptcy Court for the Northern District of Illinois, Case No. 03 B35893. No publicly held corporation holds ten percent or more of Big Idea's stock.

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PETITION FOR WRIT OF CERTIORARI

This case presents an important and unresolved question about the construction of §204(a) of the Copyright Act, which governs the transfer of exclusive copyright licenses and requires the copyright owner to execute either an "instrument of conveyance" or a "note or memorandum of the transfer" to validate the transfer. 17 U.S.C. §204(a).

The Fifth Circuit, contrary to decisions of the Second, Seventh, Ninth, and Eleventh Circuits, held that a "note or memorandum" that confirms a prior transfer of an exclusive license can satisfy §204(a) only in an infringement action against a third party. Pet. App. 9a. The court of appeals additionally held that the writing must be communicated to the transferee, interjecting a requirement found nowhere in the statute. Pet. App. 12a. As a result, the Fifth Circuit's decision causes significant confusion regarding the nature of

the writing required to validly transfer an exclusive copyright license. Moreover, it impedes Congress's "express objective of creating national, uniform copyright law" by invalidating exclusive licenses that would remain effective in other circuits under the plain terms of the Act. See *Cmty. for Creative Non-Violence* v. *Reid*, 490 U.S. 730, 740 (1989). No justification exists for the Fifth Circuit's distinction, which protects the license from third-party challenges but permits the copyright holder to disclaim the license and resell the rights or even sue the transferee for infringement. To give effect to Congress's "paramount goal" of ensuring "predictability and certainty" of copyright ownership, *id.*, at 749, the Court should resolve the circuit split over the proper construction of §204(a).

OPINIONS AND ORDERS BELOW

The court of appeals's opinion is published at 420 F.3d 388 (CA5 2005). Pet. App. 2a-15a. The court of appeals's order denying Lyrick's petition for rehearing en banc is unpublished. Pet. App. 16a-17a.

BASIS FOR JURISDICTION

The court of appeals entered judgment and issued its opinion on August 5, 2005, Pet. App. 1a, 2a-15a, and it denied Lyrick's timely petition for rehearing en banc on October 25, 2005. Pet. App. 16a-17a. The Court has jurisdiction under 28 U.S.C. §1254.

STATUTE INVOLVED

17 U.S.C. §204 provides:

> (a) A transfer of copyright ownership, other than by operation of law, is not valid unless an instrument of conveyance, or a note or memorandum of the transfer, is in writing and signed by the owner of the rights conveyed or such owner's duly authorized agent.

(b) A certificate of acknowledgement is not required for the validity of a transfer, but is prima facie evidence of the execution of the transfer if—

(1) in the case of a transfer executed in the United States, the certificate is issued by a person authorized to administer oaths within the United States; or

(2) in the case of a transfer executed in a foreign country, the certificate is issued by a diplomatic or consular officer of the United States, or by a person authorized to administer oaths whose authority is proved by a certificate of such an officer.

STATEMENT OF THE CASE

Lyrick creates and distributes children's entertainment products, including the "Barney" purple dinosaur character. 10R55.[1] Big Idea created VeggieTales, a series of children's cartoons featuring numerous vegetable-like characters, with stories generally having a Biblical theme. Pet. App. 2a-3a. Originally distributed primarily through Christian bookstores, VeggieTales had achieved some measure of success in the mid-1990s and, hoping to expand sales of VeggieTales products beyond the religious market, Big Idea approached Lyrick about a longterm distribution arrangement. Pet. App. 2a-3a. In 1997, the parties exchanged two letters, which governed the four-year relationship under which Lyrick successfully distributed VeggieTales products in the broader media market. Pet. App. 21a-26a.

The first letter, drafted by Lyrick, outlined the key terms of the arrangement in extensive detail. Pet. App. 21a-23a. The letter identified the territory to be covered by the agreement—the United States, its territories and possessions, and Canada. Pet App. 21a. The letter provided for an initial term of five years, with an additional five years if $5 million in

[1] Citations in this format refer to the volume and page number of the record on appeal in the Fifth Circuit.

revenue was earned by Big Idea in the first five years. *Ibid.* Lyrick's rights under the letter included the right to "sell, distribute, sub distribute and sub license" VeggieTales products in the general market. *Ibid.* The letter also described the products subject to the licensing agreement, including VeggieTales videos, audio-recording reproductions, and plush figures. *Ibid.* Under the letter, Lyrick was to develop a marketing and sales plan for the VeggieTales products and advance manufacturing, marketing, and distribution costs related to product distribution. Pet. App. 22a. The letter also contained detailed terms governing the distribution of proceeds for video, audio, sublicensing, and plush figures. Pet. App. 22a-23a.

Big Idea agreed to these key terms and proposed some additional "clarifications and additions" in a second letter, which it sent to Lyrick with a cover sheet stating, "[h]ere is our agreement to proceed and the remaining issues and understandings which we need to resolve prior to signing a formal document." Pet. App. 7a, 24a-26a. Lyrick agreed to Big Idea's "clarifications and additions" in a follow-up telephone conversation and by writing "OK" next to each of them. Ex. 3; 10R90-93; 18R76-78.

There is no dispute that the parties had an agreement for the distribution of VeggieTales products. Pet. App. 19a. Indeed, following the 1997 letters, Lyrick immediately began marketing, promoting, and distributing VeggieTales products. Pet. App. 3a. Lyrick, an established and respected children's entertainment company, advanced the manufacturing and distribution costs for VeggieTales, taking upon itself the risk for the success of the commercial venture. Pet. App. 20a. Ultimately, Lyrick and Big Idea performed under the terms of the 1997 letters for four years, and Big Idea repeatedly confirmed to third parties and to Lyrick during that time that the parties had a valid distribution agreement. 12R54, 109-111; 14R81-86, 90-92; Ex. 149. From the time Lyrick began distributing VeggieTales products through December 31,

2001, Lyrick paid Big Idea more than $40 million, calculated and paid in accordance with the terms of the 1997 letters. 13R41; 12R54.

After Lyrick had performed under the agreement for approximately six months, a Big Idea employee sought to revisit the length of the term of the parties' contract. Ex. 122; 16R109-110; 18R102-103. In response to the inquiry, the Big Idea executive who made the agreement with Lyrick wrote and signed a memorandum that detailed the extensive negotiations that led to the parties' longterm distribution agreement. Pet. App. 19a-20a. The memorandum then confirmed the existence of the parties' agreement: "I would say that we have an agreement in force. It made sense to us at the time. And I still think it does." Pet. App. 19a-20a (additionally stating that "[w]e agreed over the phone to his contract and thanked him very much").

Nevertheless, in 2001, Big Idea prematurely terminated the agreement and entered into a more lucrative distribution agreement with another company. See Ex. 56. Lyrick sued Big Idea to enforce the parties' agreement, and, following a jury trial, the jury returned a unanimous verdict for Lyrick on all claims. 1R31-40; 6R1446-1461. The jury's verdict included findings that (i) Lyrick had an exclusive license to distribute VeggieTales products in the general market for ten years, (ii) the parties' writings were "complete in every material detail" and "contain[ed] all of the essential elements of the agreement," and (iii) Lyrick suffered $9,071,973 in damages. 6R1451, 1454-1455, 1457. The district court entered judgment on the verdict. 7R1577-1578.

On appeal, Big Idea contended only that the parties' writings did not satisfy §204(a) of the Copyright Act, which requires an agreement such as the one between Lyrick and Big Idea to be validated by either an "instrument of conveyance" or a "note or memorandum of the transfer." 17 U.S.C. §204(a). The district court had repeatedly rejected this argument—at summary

judgment, at the close of the evidence, before submission to the jury, and postverdict. 9R26-27, 60; 17R6; 6R1417; 20R28; 7R1574. Despite the jury's unchallenged findings that the parties' writings contained a complete agreement, the Fifth Circuit concluded that the 1997 letters were insufficient under §204(a) because they were not "final contract[s]." Pet. App. 8a-9a. The Fifth Circuit then rejected Big Idea's posttransfer confirmatory memorandum because, contrary to the decisions of other circuits, §204(a)'s confirmatory "note or memorandum" option exists only when a third party challenges the validity of the transfer, and because the memo was not communicated to Lyrick, a requirement not contained in the statute. Pet. App. 9a, 12a.

REASONS FOR GRANTING THE WRIT

Contrary to decisions of the Second, Seventh, Ninth, and Eleventh Circuits, the Fifth Circuit ruled that a "note or memorandum" that confirms a prior transfer of an exclusive copyright license does not satisfy §204(a) in a dispute between the transferor and the transferee. The court of appeals also held that the "note or memorandum" must be communicated to the transferee in order to satisfy §204(a). In other words, even if there is no dispute that a licensing agreement exists between the parties and that the transferor has internally documented its agreement in a note or memorandum, the Fifth Circuit will not recognize the agreement as a valid §204(a) transfer. By putting itself at odds with the other circuits, the court of appeals has thrown into confusion the standard for evaluating whether an exclusive copyright license satisfies §204(a) and heightens the risk of disparate treatment and forum shopping.

This result undermines the very purpose of the Copyright Act, which was to promote certainty in copyright ownership. And it defeats Congress's clearly expressed intention in adopting §204(a) to "broaden[] and liberalize[]" the means available to validate agreements transferring copyright li-

censes. H.R. Rep. No. 94-1476, p. 128 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5744. The Fifth Circuit's construction of §204(a) therefore contradicts both the plain language and the legislative history of the provision, improperly frustrating Congress's intent. The Court should grant the petition, resolve the split in the circuits, and clarify the proper §204(a) standard.

I. THE COURTS OF APPEALS ARE DIVIDED ON THE PROPER CONSTRUCTION OF §204(A)'S "NOTE OR EMORANDUM" REQUIREMENT.

Based on the plain language of §204(a), the Second, Seventh, Ninth, and Eleventh Circuits have recognized that a confirmatory "note or memorandum" executed after the transfer of an exclusive copyright license satisfies §204(a).

The Second Circuit, the first circuit to construe §204(a)'s "note or memorandum" provision, held that "the requirement is satisfied by the copyright owner's later execution of a writing which confirms the agreement." *Eden Toys, Inc.* v. *Florelee Undergarment Co.*, 697 F.2d 27, 36 (CA2 1982). The Seventh Circuit, focusing on the plain language of §204(a), similarly has held that "an oral assignment may be confirmed later in writing." *Billy-Bob Teeth, Inc.* v. *Novelty, Inc.*, 329 F.3d 586, 591 (CA7 2003). The Eleventh Circuit on two separate occasions has agreed, concluding that "17 U.S.C. § 204(a) can be satisfied by an oral assignment later ratified or confirmed by a written memorandum of the transfer." *Arthur Rutenberg Homes, Inc.* v. *Drew Homes, Inc.*, 29 F.3d 1529, 1532-1533 (CA11 1994); see also *Imperial Residential Design, Inc.* v. *Palms Dev. Group, Inc.*, 70 F.3d 96, 99 (CA11 1995) ("This court has adopted the reasoning of those courts which have held that a copyright owner's later execution of a writing which confirms an earlier oral agreement validates the transfer *ab initio*."). And the Ninth Circuit also has twice determined that "[i]f an oral transfer of a copyright license is later confirmed in writing,